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BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

Arizona Corporation Commission

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BRENDA BURNS
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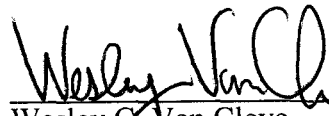
IN THE MATTER OF THE APPLICATION OF
FAR WEST WATER AND SEWER, INC., AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES
BASED THEREON FOR UTILITY SERVICE.

DOCKET NO. WS-03478A-12-0307

**STAFF'S NOTICE OF FILING
RATE DESIGN DIRECT TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
hereby files Rate Design Direct Testimony of Gerald W. Becker in the above-captioned matter.

RESPECTFULLY SUBMITTED this 21st day of February, 2013.


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Original and thirteen (13) copies of
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF)
FAR WEST WATER & SEWER, INC., AN)
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THEREON FOR UTILITY SERVICE)

DOCKET NO. WS-03478A-12-0307

(RATE DESIGN)

DIRECT TESTIMONY

OF

GERALD BECKER

EXECUTIVE CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 21, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
BACKGROUND	1
RATE DESIGN	1
Miscellaneous Charges	6

SCHEDULES

Rate Design	GWB-1
Typical Bill Analysis	GWB-2

EXECUTIVE SUMMARY
FAR WEST WATER & SEWER, INC.
DOCKET NO. WS-03478A-12-0307

Far West Water & Sewer, Inc. ("Far West" or "Company") is an Arizona public service corporation authorized to provide water and wastewater service within portions of Yuma County, Arizona. On July 6, 2012, the Company filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to increase its rates for wastewater service. The Company's existing Certificate of Convenience and Necessity ("CC&N") for wastewater service covers an area totaling approximately 4,335 acres. Far West had over 7,400 residential wastewater customers, 45 commercial wastewater customers and 4 recreational vehicle parks containing over 700 spaces in December 2011. This rate case filing includes only the wastewater division.

This testimony presents Staff's recommendation for rate design for the Company's Sewer Division. The impacts of the Company-proposed and Staff-recommended rate designs on the typical residential customer.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Gerald Becker that filed direct testimony regarding the Company's revenue requirements in this case?

A. Yes, I am.

BACKGROUND

Q. Please describe the Company's operations.

A. With two shareholders, Far West is a very closely held corporation that provides water and wastewater services in portions of Yuma County Arizona. Far West has approximately 7,400 wastewater customers and approximately 15,000 water customers. The instant filing only addresses wastewater rates.

Far West's current rates were approved in Decision No. 69335 dated February 20, 2007.

RATE DESIGN

Q. Did Staff prepare schedules showing the present, Company-proposed, and Staff-recommended rates and charges?

A. Yes. Staff Schedules GWB-1 and GWB-2 show the present monthly minimum charges and commodity rates, the Company's proposed monthly minimum charges and commodity rates and Staff's recommended monthly minimum charges and commodity rates. The schedules also show the present, proposed and recommended service charges.

1 A summary of the present, Company-proposed and Staff-recommended rates is presented
2 in the following section.

3
4 **Q. Please provide an overview of the present rate design for the Company's Sewer**
5 **Division.**

6 A. The present monthly minimum charges are as follows: Residential (all except RV spaces)
7 \$21.75, Commercial (all) \$43.50, RV space \$5.44. Effluent customers have no monthly
8 minimum and pay \$1.00 per thousand gallons.

9
10 **Q. Please provide an overview of the Company's proposed rate design for its Sewer**
11 **Division.**

12 A. The Company proposes to increase all monthly minimum charges by the same proportion
13 but to implement a "Market" rate for its Effluent customers. The proposed monthly
14 minimum charges are as follows: Residential (all except RV spaces) \$62.65, Commercial
15 (all) \$125.30, RV space \$15.66. Effluent customers would have no monthly minimum
16 and pay a "Market" rate between \$.20 per thousand gallons and \$1.00 per thousand
17 gallons.

18
19 **Q. What distinguishes Staff's recommended rate structures from the present and**
20 **Company-proposed rate structures?**

21 A. First, Staff disagrees with setting RV spaces at 25 percent of the single family rates.
22 Based on design criteria from ADEQ, Staff believes that setting the RV space rate at 33
23 percent of the single family rate is more appropriate.

24
25 Second, Staff notes that the Company's proposal does not differentiate by water meter size
26 for its commercial customers or otherwise consider the amount of water purchased by its

1 44 commercial customers. In order to evaluate the overall equity of the Company's
2 proposed rate design, Staff informally requested information regarding the water
3 purchases of these wastewater customers during the test year. Fortunately, all 44
4 accounts¹ are also water customers of Far West's Water Division and the information was
5 available.

6
7 The Company's response indicated:

8 5/8" water meters 11

9 1" water meters 7

10 1 1/2" water meters 2

11 2" water meters 23

12 6" water meters 1

13
14 The one 6" water customer is Rancho Rialto Mobile Home Park which master meters its
15 water purchases but each of the 271 residents pay their own wastewater bill separately.
16 Thus, Rancho Rialto Mobile Home Park warrants consideration and treatment as a 5/8"
17 customer, since its common use is limited.

18
19 Staff further analyzed the data and found very significant variations in the water purchases
20 within each meter size and that some customers with smaller water meters actually
21 purchased significantly more water than customers with larger meters. A summary of the
22 annual water purchases by meter size is shown below:
23

¹ Some customers have more than one account, i.e. Comfort Inn and H&S Developers.

		Total Group	Minimum	Maximum	Average per customer
1					
2	5/8" water meters	2,404,300	34,160	854,170	104,535
3	1" water meters	4,048,130	44,520	3,072,920	578,304
4	1 1/2" water meters	417,000	102,500	314,500	208,500
5	2" water meters	18,238,720	1,800	1,935,000	792,988
6	6" water meters	14,834,000	N/A	N/A	N/A
7					

8 As indicated above, there are wide and overlapping variations in the consumption patterns.
9 This indicates that it is inappropriate to charge the same rates for all meter sizes. Further,
10 some of the above flows would compare with the typical residential customer that puts
11 approximately 3,000 gallons per month, or 36,000 gallons per year into the wastewater
12 system.

13
14 Based on the above information, Staff recommends the continued use of flat rates and the
15 use of meter multipliers so that customers with larger water meters will pay higher
16 wastewater rates.

17
18 **Q. Please provide an overview of Staff's recommended rate design for the Company's**
19 **Sewer Division?**

20 A. Staff's recommended rates and charges are presented in Schedule GWB-1. Staff's
21 recommended monthly minimum charges are as follows: Residential (all except RV
22 spaces) \$55.70 and RV space \$18.57. For Commercial customers, sewer rates would be
23 based on the size of the customer's water meter, 5/8 x 3/4-inch, \$55.70; 3/4-inch, \$86.58;
24 1-inch, \$145.37; 1 1/2-inch, \$287.49; 2-inch, \$459.02; 3-inch, \$891.14; 4-inch, \$1,392.40;
25 6-inch excluding Rancho Rialto Mobile Home Park, \$2,784.80; Rancho Rialto Mobile
26 Home Park \$55.70. The use of meter multipliers applied to commercial rates results in

1 commercial customers bearing approximately 3.05 percent of the revenue requirements.
2 Staff recommends that the commodity rate for Effluent customers be increased by 10 cents
3 to \$1.10 per thousand gallons with no monthly minimum charge.
4

5 Staff further recommends that the rates be phased in with 50 percent of the increase
6 becoming effective on the first day of the month after the Company achieves compliance
7 with the conditions more fully described in Staff's revenue requirement testimony filed on
8 February 13, 2013, with the remaining 50 percent becoming effective 6 months later.
9

10 Staff also recommends that the Company be required to prepare and include a Cost of
11 Service Study in its next rate application so that the rate design including the
12 appropriateness of including a volumetric component can be assessed more thoroughly.
13

14 **Q. What is the rate impact on a residential customer?**

15 A. A residential customer would experience a \$40.90, or a 188.05 percent, increase from
16 \$21.75 to \$62.65, under the Company's proposed rates and a \$33.95, or a 156.09 percent,
17 increase, from \$21.75 to \$55.70, under Staff's recommended rates at Phase 2. A typical
18 bill analysis is provided in Schedule GWB-2.
19

20 **Q. Does Staff have an alternative suggestion regarding the amount of revenues to be**
21 **borne by the commercial customers?**

22 A. Yes. Regarding the water purchases data above and excluding the water purchases for
23 Rancho Rialto Mobile Home Park of 14,834,000 gallons, the total water purchases for
24 commercial customers are 25,108,150 gallons. For purposes of this discussion, Staff is
25 conservatively estimating that approximately 50 percent of water purchases, or 12,554,075
26 gallons, go into the wastewater system. Dividing 12,554,075 by total wastewater flows in

1 the test year of 275,467,000 gallons would suggest that 4.56 percent of the revenue
2 requirement should be borne by the commercial customers. The large variations in
3 volumes further suggest that the rate design should include both a fixed and volumetric
4 component. Therefore, an alternative rate design would be to reduce the multipliers in
5 Staff's rate design discussed above and include a volumetric component. For this
6 alternative Staff's recommended monthly minimum charges are as follows: Residential
7 (all except RV spaces) \$54.84 and RV space \$18.28. For Commercial customers, sewer
8 rates would be based on the size of the customer's water meter, 5/8 x 3/4-inch, \$54.84;
9 3/4-inch, \$68.20; 1-inch, \$114.50; 1 1/2-inch, \$226.44; 2-inch, \$361.56; 3-inch, \$701.92;
10 4-inch, \$1,096.75; 6-inch excluding Rancho Rialto Mobile Home Park, \$2,139.49; Rancho
11 Rialto Mobile Home Park \$54.84. For commercial customers except Rancho Rialto
12 Mobile Home Park, a commodity charge of \$9.6331 per thousand gallons would apply to
13 the excess of 50 percent of the water purchases over 3,000 gallons per month. Staff
14 recommends that the commodity rate for Effluent customers still be \$1.10 per thousand
15 gallons with no monthly minimum charge.

16
17 **Miscellaneous Charges**

18 **Q. Does Staff have any comments related to service charges?**

19 A. Yes. Staff agrees with the Company's proposed Other Service Charges, with the
20 following exceptions which includes recommendation of a Disconnection Fee for non-
21 payment at cost.

22
23 Staff recommends the addition of a Service Charge (after hours) tariff in the amount of
24 \$35.00 and that this charge be in addition to the charge for any utility service provided
25 after hours at the customer's request for the customer's convenience. Such a charge

1 compensates the utility for additional expenses incurred from providing after-hours
2 service.

3
4 Staff also recommends adding a Disconnect and Reconnect charge at cost due to 700
5 customers receiving water service from the City of Yuma rather than Far West. The
6 remaining 6,800 wastewater customers receive water service from Far West which allows
7 Far West to disconnect water service when wastewater bills are unpaid. Staff
8 recommends the actual cost of physical disconnection and reconnection (if same
9 customer), when the wastewater customer is not a water customer of Far West.

10
11 **Q. What does Staff recommend?**

12 A. Staff recommends the approval of the Other Services Charges as shown on Schedule
13 GWB-1. These charges reflect the Other Service Charges as proposed by the Company
14 along with a Disconnection Fee for non-payment at cost for wastewater customers that are
15 not water customers of Far West.

16
17 **Q. Does this conclude your direct testimony?**

18 A. Yes, it does.

RATE DESIGN

	Present Rates	Proposed Rates- Co.	Staff Recommended Rates
Monthly Usage Charge- Residential - All except RV RV Spaces	\$21.75 \$5.44	\$ \$	\$ 55.70 \$ 18.57
Commercial - ALL	\$43.50	\$	N/A
Commercial - 5/8"	N/A	N/A	\$ 55.70
Commercial - 3/4"	N/A	N/A	\$ 86.58
Commercial - 1"	N/A	N/A	\$ 145.37
Commercial - 1 1/2"	N/A	N/A	\$ 287.49
Commercial - 2"	N/A	N/A	\$ 459.02
Commercial - 3"	N/A	N/A	\$ 891.14
Commercial - 4"	N/A	N/A	\$ 1,392.40
Commercial - 6", except Rancho Rialto	N/A	N/A	\$ 2,784.80
Commercial - Rancho Rialto Only	N/A	N/A	\$ 55.70
Commodity Charges			
Sale of Effluent, per thousand gallons	\$1.00	"Market" rate, minimum \$0.20 and maximum \$1.00	\$1.10
Service Charges			
Establishment	20.00	40.00	40.00
Reconnection (Delinquent)	20.00	30.00	30.00
Deposit (Residential)	2 times the average bill	2 times the average bill	Per Rule*
Deposit (Non-Residential)	2 1/2 times the average bill	2 1/2 times the average bill	Per Rule**
Deposit Interest	6.00%	6.00%	Per Rule***
Re-Establishment (Within 12 Months)	Number of months off system times the monthly minimum	Number of months off system times the monthly minimum	Per Rule****
NSF Check	15.00	30.00	30.00
Deferred Payment, Per Month	1.5%	1.5%	1.5%
Late Payment, Per Month	1.5%	1.5%	1.5%
Disconnect and Reconnect (Delinquent)	N/A	N/A	Cost*****
After Hours Service Charge	N/A	N/A	35.00

* Per Commission Rules (R14-2-603.B.7.a.)

** Per Commission Rules (R14-2-603.B.7.b.)

*** Per Commission Rules (R14-2-603.B.3)

**** Months off system times the minimum (R14-2-603.D.1)

***** For Non-Far West water customers only

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax, per Commission Rule 14-2-608(D)(5).

RATE DESIGN

50 Percent Phased In

Typical Bill Analysis General Service 5/8 x 3/4-Inch Meter

Company Proposed	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
All Residential (No phase in proposed by Company)	\$ 21.75	\$ 62.65	\$ 40.90	188.05%

Staff Recommended

All Residential	\$ 21.75	\$ 38.73	\$ 16.98	78.07%
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Completely Phased In

Typical Bill Analysis General Service 5/8 x 3/4-Inch Meter

Company Proposed	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
All Residential	\$ 21.75	\$ 62.65	\$ 40.90	188.05%

Staff Recommended

All Residential	\$ 21.75	\$ 55.70	\$ 33.95	156.09%
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